

# HOTEL PROPERTY INVESTMENTS

## Annual Results Briefing



30 June 2020



## Contents

Highlights

Financial Results

Investment Portfolio

Acquisitions

Outlook

# 1. Highlights



# Highlights for FY2020

## Investment properties

### Acquisitions

- Gregory Hills Hotel
- Acacia Ridge Hotel

### Lease extensions

- 57% of leases by income extended
- WALE increased by 8 years. Currently 11.4 years
- \$30m capital investment program

### Properties

- 45 properties valued at \$785.9m
- Weighted average cap rate reduced to 6.1% (June 2019: 6.4%)

## Capital management

### Debt

- Additional \$100m debt facility
- Introduction of a new lender

### Equity

- \$30m capital raising<sup>1</sup>
- 157.8m securities on issue, up 7.5%





# Highlights for FY2020

## Financial performance

### Revenue from investment properties

- \$49.8m rental revenue from investment properties
- Up 6.2% on prior year

### Full Year Distributions per Security

- 20.0c per security
- Up 0.5% on prior year

### Net asset value per Security

- \$3.01
- Up 3.1% from June 2019

## Capital management

### Debt

- \$301.5m drawn as at 30 June 2020
- 38.0%<sup>1</sup> Gearing ratio as at 30 June 2020

### Distribution reinvestment plan

- 13.4% take up
- \$2.0m to be re-invested from the June 2020 distribution



# Impact of COVID-19 on HPI

## Our people

- The safety and well-being of our staff is of the highest importance
- Restricted travel in accordance with guidelines
- Working from home implemented
- Reliable IT infrastructure

## FY20 financial impact

- Minor revenue impacts
  - \$0.4m rent abated (0.7% of FY20 rental income)
  - \$3.4m rent deferred (6.8% of FY20 rental income)
- HPI has not accessed Jobkeeper





## 2. Financial Results

# FY2020 Financial Results - Statutory Profit

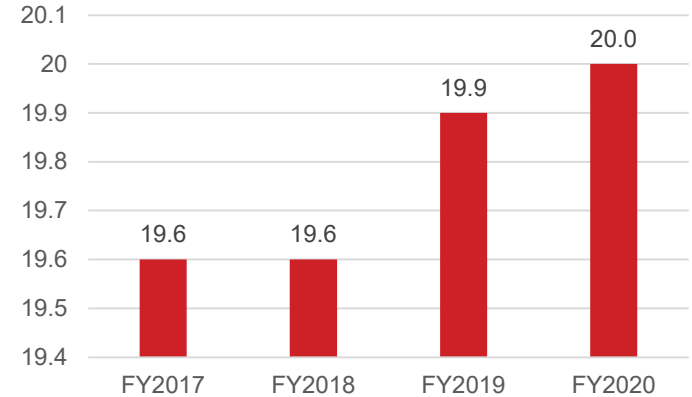
	FY2020 \$m	FY2019 \$m
Rental income	49.8	46.9
Other property income	4.3	4.3
<b>Net rental income</b>	<b>54.1</b>	<b>51.2</b>
Property outgoings	(7.3)	(7.3)
Management and trust expenses	(4.2)	(3.8)
<b>Operating profit</b>	<b>42.6</b>	<b>40.1</b>
Gain on disposal of investment property	-	1.6
Fair value gain on investment property	10.2	20.6
<b>Earnings before interest and tax</b>	<b>52.8</b>	<b>62.3</b>
Finance expenses	(11.9)	(13.0)
<b>Net profit</b>	<b>40.9</b>	<b>49.3</b>
<b>Earnings per Security</b>	<b>27.3 cents</b>	<b>33.7 cents</b>



# FY2020 Financial Results – Distributions per Security

	FY2020 \$m	FY2019 \$m
<b>Net Profit</b>	<b>40.9</b>	<b>49.3</b>
<b>Adjusted for:</b>		
Straight line lease adjustment	(0.3)	1.4
Net property fair value gain	(10.2)	(20.6)
Gain on disposal of investment property	-	(1.6)
Maintenance Capex	(0.7)	(0.3)
Other adjustments	0.6	0.6
<b>Adjusted Funds From Operations</b>	<b>30.3</b>	<b>28.8</b>
Taxable income adjustment	-	0.2
<b>Distribution</b>	<b>30.3</b>	<b>29.0</b>
<b>Distribution per Security (cents)</b>	<b>20.0 cents</b>	<b>19.9 cents</b>

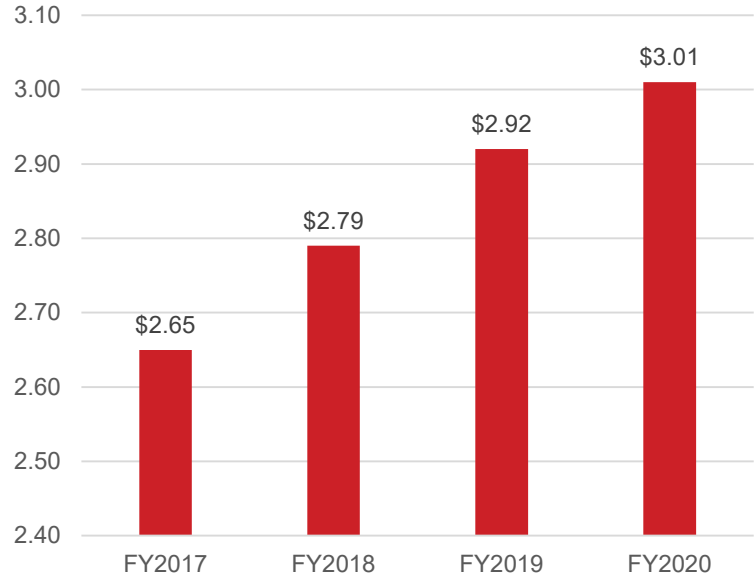
## Distributions per Security (cps)



# FY2020 Financial Results - Balance Sheet

	Jun 2020 \$m	Jun 2019 \$m
Cash and cash equivalents	1.1	0.6
Receivables	3.8	0.4
Investment properties	785.9	708.5
Other assets	0.9	0.6
<b>Total assets</b>	<b>791.7</b>	<b>710.1</b>
Creditors and payables	5.5	5.1
Provisions	15.2	14.7
Loans and borrowings	301.5	264.7
Borrowing costs	(2.8)	(1.5)
Other liabilities	0.3	0.2
<b>Total liabilities</b>	<b>319.7</b>	<b>283.2</b>
<b>Net assets</b>	<b>472.0</b>	<b>426.9</b>
<b>NAV per Security</b>	<b>\$3.01</b>	<b>\$2.92</b>
<b>Gearing<sup>1</sup></b>	<b>38.0%</b>	<b>37.2%</b>

## Net Asset Value per Security



# FY2020 Financial Results - Borrowing Summary

	USPP Note A	USPP Note B	USPP Note C	CTD Facility A	CTD Facility B	Total
Total facility	\$100m	\$30m	\$100m	\$73m	\$100m	\$403m
Amount drawn	\$100m	\$30m	\$100m	\$34.0m	\$37.5m	\$301.5m
Available debt	-	-	-	\$39.0m	\$62.5m	\$101.5m
Maturity date	August 2025	August 2027	August 2027	July 2022	December 2024	5.0 years
Interest basis	Fixed	Fixed	Floating	Floating	Floating	43% fixed

Covenants	Covenant	Jun 2020	Headroom
Gearing <sup>1</sup>	60%	40%	20%
Interest cover ratio	1.5 times	3.7 times	2.2 times
Tangible assets	\$500m	\$792m	\$292m

1. (Total interest bearing liabilities and distribution provision) / Total tangible assets



### 3. Investment Portfolio

# Investment Portfolio

- HPI owns 45 pub and accommodation properties, 41 leased to Queensland Venue Co (“QVC”)
- QVC is a joint venture between Coles Ltd and Australian Venue Co (“AVC”) established in March 2019
- AVC are an experienced pub and hospitality operator of 150+ venues
- Secure income stream underpinned by long term lease arrangements
- HPI owns the majority of the liquor and gaming licences which revert to the landlord at lease expiry
- Prudently managed balance sheet which provides flexibility
- Attractive risk-return profile



# Key Portfolio Metrics

	Jun 2020	Jun 2019
<b>Investment properties</b>		
Investment properties value	\$785.9m	\$708.5m
Number of properties	45	43
Weighted average capitalisation rate	6.1%	6.4%
Weighted average lease expiry	11.4 years	4.4 years
Average hotel option period	14.7 years	24.0 years
Hotel occupancy	100%	100%
<b>Debt facilities</b>		
Debt facilities limit (ex Guarantees)	\$403.0m	\$304.0m
Loans drawn (ex Guarantees)	\$301.5m	\$264.7m
Gearing <sup>1</sup>	38.0%	37.2%
Weighted average debt expiry	5.0 years	6.6 years
Weighted average debt costs	3.59%	4.33%
% at fixed interest rates	43%	50%

## Key observations

- NAV growth driven by cap rate compression in 28 properties, offset by valuation declines on properties where rent was reset and capex committed to the portfolio
- Acquisitions of Acacia Ridge Hotel and Gregory Hills Hotel
- Debt facilities increased and a new lender introduced
- WALE has increased from 4.4 years to 11.4 years
- Reduction in average hotel option period to 14.7 years (QVC exercised as part of the lease extensions)
- 100% hotel occupancy maintained
- Weighted average debt costs have reduced to 3.59%

1.  $(\text{Drawn Debt minus Cash}) / (\text{Total Assets minus Cash})$

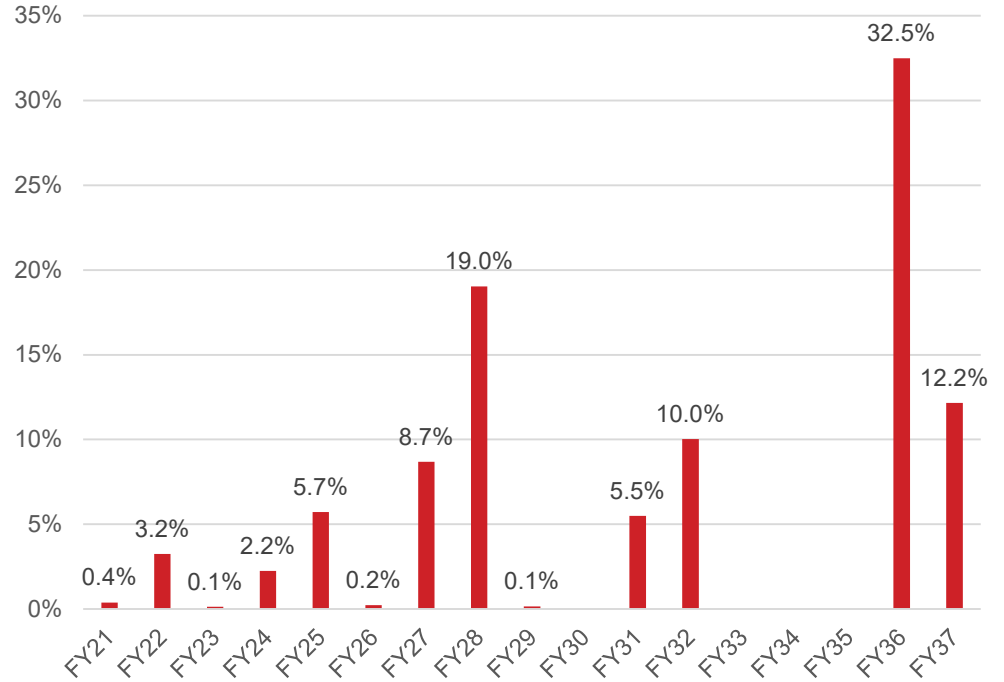
# All hotel leases expiring in CY2021 extended

## Lease extensions

- HPI's primary tenant, Queensland Venue Company, exercised multiple options for hotels where the initial term expired in CY2021 (28 pubs)
- The extended pubs represented 57% of HPI's passing income at the time the options were exercised
- WALE by income is 11.4 years

	20 Pubs	8 Pubs
Options exercised	3 x 5 years	2 x 5 years
Rent	Remains unchanged	Reset \$3m lower than June 2020 passing rent
New rent commences	N/A	1 July 2020
Rent review mechanism	Remains unchanged	Remains unchanged

## Lease expiry profile by percentage of total income<sup>1</sup>





## 4. Acquisitions

# Gregory Hills Hotel

- The hotel is a new single level structure with bistro bar, sports bar, 30 electronic gaming machines (“EGMs”) and a walk in bottle shop
- Located in the South Western Sydney growth corridor experiencing above average population growth
- Diverse income streams across bar, F&B and gaming and is designed to cater to the family market
- Licencee (Royal Hotels Group) is a highly experienced operator with a 25-year history of successfully owning and managing pubs in Sydney



Key lease terms	
Tenant	Royal Hotels Group
Purchase Price <sup>1</sup>	\$40m
Yield	5.5%
Commencing rent (p.a.)	\$2.2m
Lease and option terms	12 years (3x12 year options)
Rent review mechanism	Years 1-5: 1.5% 3.0% thereafter
Outgoings	Tenant responsibility
Land area	9,800 sqm



# Acacia Ridge Hotel

- The Acacia Ridge hotel is a large format suburban hotel constructed in 1973 extending over lower and ground floors, comprising a drive through and walk in bottle shop, main bar, TAB, bistro with 90 seats and gaming lounge with 45 EGM's
  - Strong gaming venue in good location (within the top 5 gaming hotels in Queensland)
  - 44 motel rooms over two levels with a dedicated reception area
- Diverse income streams across bar, F&B, gaming and accommodation
- Tenanted by Monarch Hotels, who are experienced pub operators



Key lease terms	
Tenant	Monarch Hotels
Purchase Price <sup>1</sup>	\$20m
Yield	5.5%
Commencing rent (p.a.)	\$1.1m
Lease and option terms	12 years (5x10 year options)
Rent review mechanism	Year 1: 1% 2.5% thereafter
Outgoings	Tenant responsibility
Land area	15,800 sqm



## 5. Outlook



# Outlook

- HPI is a long-term owner of pub and accommodation properties that aims to deliver a secure income stream to investors
- We work with tenants to enhance the value of the portfolio through investment and upgrades to achieve better site utilisation with the objective of increasing distributions and capital growth by:
  - Focusing on expanding onsite accommodation; and
  - Exploring opportunities to create new income streams on underutilised land
- HPI will continue to pursue pub acquisitions that meet our investment criteria

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